Manual for External Audits

of

County Forfeiture Accounts

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Forfeiture Program CPA Audit Standards Authority

Tab#

- Attorney General Law Enforcement Directive No. 2003 This directive is the authority for the implementation of the audit procedures as outlined in the manual.
- 2. N.J.S.A. 2C:64-1 Forfeiture This statute is the authority for the implementation of the forfeiture program, and must be followed accordingly.
- 3. N.J.S.A. 40A:5-1 Local Fiscal Affairs Law-Title 40A is the authority for auditing firms to follow in the administration and operation of the audit.
- 4. N.J.A.C. 5:30-6.1 Annual Audit This regulation describes the requirements and standards for conducting the annual audits.
- 5. State of New Jersey Forfeiture Program Administration Standard Operation Procedure This enclosure provides the index and copies of all the standard operating procedures required in the implementation of the forfeiture program.

Samples

- 6. Sample Balance Sheet
- 7. Sample Statement of Operations
- 8. Sample Cash Flow Analysis

Authority: Attorney General Law Enforcement Directive 2003-

Enclosure 1: Executive Directive 2003-?

Authority: N.J.S.A. 2C:64-1 Forfeiture

Enclosure 2: Chapter 64 Forfeiture

Authority: State of New Jersey Forfeiture Program Administration Standard

Operating Procedures (SOP's 1-12)

Enclosure 5: SOP's 1-12

Purpose:

The purpose of this manual is to implement the provisions of Attorney General Law Enforcement Directive 2003-? (Enclosure 1), by providing protocols for annual Certified Public Accountant (CPA) audits of accounts containing seized and forfeited property subject to the provisions of Title 2C of the New Jersey Code (Enclosure 2).

The primary purposes of audits by the independent auditor are:

- To evaluate the effectiveness, efficiency, economy, and compliance with which the Prosecutor's Offices carry out their financial, management, and program responsibilities.
- To assist the Attorney General and County Prosecutor in carrying out their responsibilities by providing objective and timely information on the conduct of all financial activities, to include conclusions and recommendations.

Background:

A review of external independent CPA audit reports uncovered a need to standardize the evaluations of the internal accounting and administrative controls

over the county forfeiture programs. There appears to be a compelling need to elevate, integrate, and institutionalize CPA auditing practices to ensure a uniform audit approach throughout the 21 County Prosecutors' Offices. It was determined that to accomplish this standardization of CPA audits an Attorney General Directive was needed to provide direction and require implementation. Enclosure 1 is the directive that establishes the authority to publish this manual.

Prior to adoption of this Manual for External Audits of County Forfeiture Accounts (Manual), a copy of the Manual was circulated to selected forfeiture auditors for comment. Auditor suggestions and comments on the Manual were addressed in the final version of the Manual.

In addition to the auditors, the Division of Criminal Justice (DCJ) was given the opportunity to provide suggestions and comments. These suggestions and comments were addressed in the final version of the Manual.

Prosecutor Office's Responsibilities:

Each Prosecutor's Office is responsible for managing and using its resources—funds, property, and personnel—only for authorized law enforcement programs or activities, and for conducting its programs or activities in an effective, efficient, and economical manner. Each office's system of organization, management, and control should be designed to accomplish these ends, with due regard to the requirements of applicable laws, regulations, directives, and SOPs.

The prevention of misuse of the forfeiture program is of extreme importance and that responsibility rests with the Prosecutor. The Prosecutor Office's structure, the division of accounting responsibilities, and related control procedures should be devised to prevent misuse, and an internal accounting and administrative controls system should be in operation to detect any consequential irregularity.

With regard to the independent audit of seized and forfeited property, the County Prosecutor must include in any forfeiture audit agreement a provision that

the auditor will adhere to this Manual, the applicable statutes, regulations, and standard operating procedures. It shall be the responsibility of the County Prosecutor to provide the contracted auditor with a copy of the Manual. Furthermore, the County Prosecutor will provide a contact person for the auditor and access to the appropriate records and personnel needed to complete the audit. It is the primary responsibility of the County Prosecutor to insure the contracted auditor provides an audit as defined in the Manual. Prosecutor's Offices with concerns about providing access to confidential information shall consult with DCJ.

Each County Prosecutor shall be responsible for reviewing any findings in the annual external audit with a member of DCJ within six (6) months of receiving the results of the audit.

Scope of Independent Audit:

Independent audits extend to seized or forfeited property (funds and other tangible and intangible assets), and the administration and operation of accounts related to seized and forfeited property. The authority for the administration and operation of these accounts is outlined in N.J.S.A. 2C:64-1 et seq. (Enclosure 2) and the State of New Jersey - Forfeiture Program Administration, Standard Operating Procedure (Enclosure 5). The basic audit requirements for these accounts are described in N.J.S.A. 40A:5-1 et seq. (Enclosure 3) and N.J.A.C. 5:30-6.1 Annual Audit (Enclosure 4). In addition to the audit of these accounts, the auditor will be required to test for compliance with the aforementioned statutes, regulations, and standard operating procedures.

Auditors shall have full access to all documents, accounts, and work papers.

Audits shall be set up in a manner to avoid confidentiality issues. Any failure by the prosecutor or staff to provide the auditor with access to records and personnel

must be incorporated in the auditor's report and opinion.

CPA Audits of Confidential Funds:

The CPA will audit confidential funds only to the extent of reviewing internal controls and the totals. DCJ shall have responsibility for the financial audit of confidential funds.

Audit Plan:

Each audit must include an audit plan as a part of the auditor's work papers. The audit plan incorporates the minimum audit procedures which must be utilized by the auditor in establishing accountability for seized and/or forfeited property, and tests for compliance with forfeiture statutes, regulations, directives, and SOPs. Both the audit plan and work papers shall be maintained by the auditor for a period of seven (7) years.

Independent Auditor's Report and Opinions:

Upon completion of the audit, the auditors shall prepare two reports. The first shall be a report as to the internal controls citing material weaknesses and reportable conditions. The second shall be a report and opinion containing the financial audit with findings and recommendations. All the information outlined in the **Forfeiture Program CPA Audit Standards** segment of this Manual shall be included in the financial audit report. The reports shall be addressed to the County Prosecutor. The County Prosecutor shall forward copies of both reports to the Division of Criminal Justice.

Forfeiture Program CPA Audit Standards:

Section 1. Audit Report Content - The following are the minimum content

requirements for the CPA's annual audit of Seized Asset Trust Account, the Law Enforcement Trust Account, the Asset Maintenance Account, Federal Treasury Account, and the Federal Justice Account (forfeiture-related accounts). Each audit must contain the following statements:

- a. Report on compliance with forfeiture statutes, regulations, directives, SOPs, and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.
- b. Balance sheet containing assets, liabilities, and fund balance for the forfeiture-related accounts. Unclaimed funds included in the Seized Asset Trust Account balance for more than three (3) years must be clearly identified and reported as a finding. Any other accounts which may be funded by forfeiture funds i.e., petty cash, extradition account, etc., are to be included in the audit.
- c. A Statement of Operating Performance for the forfeiture-related accounts must include revenue, expenditures, forfeiture-related costs, and changes in fund balance. The Statement of Operating Performance shall include explanatory footnotes relating to each Law Enforcement Trust Account, Asset Maintenance Account, and forfeiture expenditure. The memo section of a check must tie a check into an expenditure, invoice, or corresponding record, if not, this must be reported in the audit report.
- d. Statements of Inventory are to be expressed in units and dollar value.
 Vehicles are to be reported separately from all other property. Units

and dollar value for vehicles and property are to be classified in two categories: first, seized property and second, property which has been forfeited to the Law Enforcement Trust Account. Records of forfeited property should be maintained separately for the length of time required by SOP 3 (2 years for vehicles; 1 year for other property worth more than \$500).

- e. Minimum supplemental exhibits consisting of the following:
 - Statement of Cash Flow Include a cash flow analysis for the Seized Asset Trust Account, Asset Maintenance Account, and the County Law Enforcement Trust Account.
 - Schedule of Municipal and Other Law Enforcement Agency Distributions and Expenditures Include every local law enforcement entity in the Schedule of Municipal and Other Law Enforcement Agency Distributions and Expenditures regardless of the amount of money received (zero or greater).
 - iii. Statement of Seized and Forfeited Vehicles expressed in units and dollars, valued at lower of Cost or Market the auditor shall report on the existence/non-existence of inventory control systems, as required by SOP 8:2B.3-7, to include the tracking of seized vehicles and the tracking of vehicles forfeited or purchased with forfeiture funds for a period of two years as required by SOP 3.1 The vehicle tracking system shall include the

¹Forfeited property should be tracked separately as forfeited property for the length of time required by SOP 3.

following information maintained in a database and the vehicle file:

- 1. Value of the vehicle at the time of seizure
- Condition of the vehicle at the time of seizure (photographs should be considered for the vehicle file)
- 3. Vehicle mileage
- iv. Statement of Seized and Forfeited other Property expressed in units and dollars Since the dollar value given to unusable items such as weapons and drugs is meaningless, it is further recommended that the inventory value of this type of seized property be eliminated from the financial statements except as a footnote to expenses incurred for the destruction of this property.²
- v. Schedule of Findings and Recommendations
- vi. Summary Schedule of Prior Year Audit Findings and Status.

Additional statements may be added at the discretion of the auditor.

f. In addition to the minimum requirements for all CPA audits set forth above, the auditor shall comply with the requirements outlined in the following authoritative resources, as required by N.J.S.A. 40A:5-1 et seq. (Enclosure 3) and N.J.A.C. 5:30-6.1 (Enclosure 4), incorporated herein by reference, in conducting the annual audit as appropriate

²Forfeited property should be tracked separately as forfeited property for the length of time required by SOP 3.

and applicable:

- Generally Accepted Auditing Standards as promulgated by the American Institute of Certified Public Accountants;
- ii. Government Accounting Standards Board with regard to disclosure of notes to the financial statements;
- iii. U.S. Office of Management and Budget Circular A-133;
- iv. New Jersey Office of Management and Budget Circular 98-07;and
- v. Generally Accepted Government Auditing Standards promulgated by the U.S. General Accounting Office.
- vi. Requirements of Audit may be obtained from:

Local Finance Board

Division of Local Government Services

Department of Community Affairs

PO Box 803

Trenton, New Jersey 08625-0803

Section 2. Standardized Terminology -

a. CPA auditors shall adhere to the terminology used in the forfeiture-related statutes, regulations, Standard Operating Procedures, and the Manual.

b. References to forfeiture-related accounts must not be confused by using any other terms, such as "confiscated," or "special" funds, or related terms when referring to these accounts. Standardized terminology is very important.

Section 3. Financial Statement Presentation -

- a. It is recommended that the format for the balance sheet (Enclosure 6) and statement of operating performance (Enclosure 7) be in columnar form with a comparison of the current year with the prior year (total memorandum only). All other schedules will be considered as supplemental to the required schedules.
- b. If the auditor uses a columnar format or another approach, the statements must include the Seized Asset Trust Account, the Law Enforcement Trust Account, the Asset Maintenance Account, the Federal Justice Account and the Federal Treasury Account. It is not required to use the recommended standardized format as long as the accounting information is prepared as suggested, and is available in the required schedules and supplemental schedules.

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